

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Houghton Lake Improvement Board	County Roscommon
Fiscal Year End March 31, 2008	Opinion Date June 4, 2008	Date Audit Report Submitted to State June 30, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

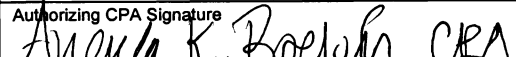
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Letter; SAS 114 Letter	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 		Printed Name Angela K. Roelofs, C.P.A.	License Number 1101029140

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

MARCH 31, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

MARCH 31, 2008

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June 4, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Houghton Lake Improvement Board
Houghton Lake, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Houghton Lake Improvement Board as of and for the year ended March 31, 2008, which collectively comprise the Improvement Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Houghton Lake Improvement Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Houghton Lake Improvement Board as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages ii through iv and 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP

Baird, Cotter & Bishop, P.C.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2008

The Houghton Lake Improvement Board, located in Roscommon County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Houghton Lake Improvement board's discussion and analysis of the financial results for the fiscal year ended March 31, 2008.

Overview of the Financial Statements

Houghton Lake Improvement Board's financial statements consist of the government-wide financial statements and notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

A. Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Improvement Board's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represented those presented by business and industry. The entire Improvement Board's assets and liabilities, both short and long-term, are reported.

The *Statement of Net Assets* presents information on all of the Improvement Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Improvement Board is improving or deteriorating.

The *Statement of Activities* presents information showing how the Improvement Board's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Houghton Lake Improvement Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2008

C. Summary of Net Assets

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets	<u>\$ 1,419,951</u>	<u>\$ 1,615,029</u>
Liabilities		
Current Liabilities	\$ 2,400	\$ 0
Net Assets		
Unrestricted	<u>1,417,551</u>	<u>1,615,029</u>
Total Liabilities and Net Assets	<u><u>\$ 1,419,951</u></u>	<u><u>\$ 1,615,029</u></u>

D. Analysis of Financial Position

During the fiscal year ended March 31, 2008, the Board's net assets decreased by \$197,478. The Improvement Board decreased their special assessments to the taxpayers by half from \$60 per parcel to \$30 per parcel. This was the leading cause of the large decrease in net assets.

E. Results of Operations

For the fiscal year ended March 31, the results of operations were:

	<u>2008</u>	<u>2007</u>
Program Revenues		
Operating Grants	\$ 136,026	\$ 274,640
General Revenues		
Investment Earnings	<u>63,585</u>	<u>65,590</u>
Total Revenues	<u>199,611</u>	<u>340,230</u>
Expenses	<u>397,089</u>	<u>289,038</u>
Change in Net Assets	<u><u>\$ (197,478)</u></u>	<u><u>\$ 51,192</u></u>

F. Analysis of Significant Revenues and Expenses

The most significant component of revenue of the Improvement Board comes from special assessments from the Townships of Denton, Lake, Markey and Roscommon. Total special assessment revenue for the year ending March 31, 2008, is \$136,026.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2008

The Improvement Board's governmental activities expenses are dominated by recreational and cultural expenses that total 100% of total expenses. The Improvement Board spent \$397,089 in the year 2008 on Lake Improvement expenses.

G. Capital Assets

The Improvement Board currently does not have a capitalization policy nor does it hold an investment in capital assets as of March 31, 2008.

H. Factors Bearing on the Board's Future

At the time that these financial statements were prepared and audited, the Board was aware of the following item that could significantly affect its financial health in the future:

A significant portion of the Board's funding comes from special assessments. Any impairment to this funding source would greatly impact the future of the Improvement Board.

I. Contacting the Board's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Improvement Board's finances and to demonstrate the Improvement Board's accountability for the money it receives. If you have questions about this report, please contact the Houghton Lake Improvement board at PO Box 843, Houghton Lake, MI 48629 or call (989) 329-9937.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2008

ASSETS

CURRENT ASSETS

Cash	\$	1,405,698
Special Assessments Receivable		<u>14,253</u>

TOTAL ASSETS	\$	<u><u>1,419,951</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$	2,400
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NET ASSETS

Unrestricted		<u>1,417,551</u>
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TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>1,419,951</u></u>
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HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

	<u>PROGRAM REVENUES</u>		<u>GOVERNMENTAL</u>
			<u>ACTIVITIES</u>
	<u>EXPENSES</u>	<u>CHARGES FOR</u> <u>SERVICES</u>	<u>NET (EXPENSE)</u> <u>REVENUE AND</u> <u>CHANGES IN</u> <u>NET ASSETS</u>
<u>GOVERNMENTAL ACTIVITIES</u>			
Recreation and Cultural	\$ 397,089	\$ 0	\$ 136,026
			\$ (261,063)
<u>GENERAL REVENUES</u>			
Interest Earnings			63,585
Change in Net Assets			(197,478)
<u>NET ASSETS</u> – Beginning of			1,615,029
<u>NET ASSETS</u> – End of Year			\$ 1,417,551

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

BALANCE SHEET
MARCH 31, 2008

ASSETS

Cash	\$ 1,405,698
Special Assessments Receivable	<u>14,253</u>
TOTAL ASSETS	<u>\$ 1,419,951</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable	\$ 2,400
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Fund Balance

Unrestricted	<u>1,417,551</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,419,951</u>
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The accompanying notes are an integral part of the financial statements.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS

MARCH 31, 2008

Total General Fund Balance	\$ 1,417,551
Differences in Amounts Reported for Governmental Activities in the Statement of Net Assets:	<u>0</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,417,551</u></u>

The accompanying notes are an integral part of the financial statements.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 2008

REVENUES

Interest and Rents	
Interest Earnings	\$ 63,585
Other Revenue	
Special Assessments	<u>136,026</u>
 Total Receipts	 <u>199,611</u>

EXPENDITURES

Recreation and Cultural	
Lake Improvements	
Supplies	
Office Supplies	2,628
Other Services and Charges	
Insurance	1,995
Professional and Contracted Services	66,400
Studies and Special Projects	321,757
Printing and Publishing	348
Conferences and Travel	1,069
Dues and Memberships	525
Miscellaneous	<u>2,367</u>
 Total Expenditures	 <u>397,089</u>
 Excess (Deficiency) of Revenues Over Expenditures	 (197,478)

<u>FUND BALANCE</u> - Beginning of the Year	<u>1,615,029</u>
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<u>FUND BALANCE</u> - End of the Year	<u><u>\$ 1,417,551</u></u>
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The accompanying notes are an integral part of the financial statements.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

Net Change in Fund Balance - General Fund	\$ (197,478)
Differences in Amounts Reported for Governmental Activities	<u>0</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (197,478)</u></u>

The accompanying notes are an integral part of the financial statements.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Houghton Lake Improvement Board have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Improvement Board's accounting policies are described below.

A. Reporting Entity

The Houghton Lake Improvement Board is a joint venture that was formed under authorization of Natural Resources and Environmental Protection Act 451 of 1994, by resolution of the boards of Denton, Lake, Markey and Roscommon Townships of Roscommon County. The Improvement Board was formed for the purpose of protecting and improving the water quality of Houghton Lake from the infection of nonnative plants and vegetation that threaten the water quality of the lake.

The Improvement Board formed a special assessment district composed of all parcels of land and local units which will benefit from the improvements. The special assessment district includes properties in Denton, Lake, Markey and Roscommon Townships. It is funded by a special assessment, contributions from participating Townships, and state appropriations. Under the criteria established by generally accepted accounting principals, the Improvement Board has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets) report information on all of the activities of the Improvement Board. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The Improvement Board's net assets can be reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide focus is more on the sustainability of the Improvement Board as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Separate financial statements are provided for governmental funds. The Improvement Board has one governmental fund called the General Fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Improvement Board are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Special assessments are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Improvement Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

Special assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Improvement Board.

The Improvement Board reports the following major governmental fund:

The *General Fund* is the primary operating fund of the Improvement Board. It is used to account for all financial resources of the Improvement Board.

D. Assets, Liabilities, and Equity

1. Deposits and Investments

It is the policy of the Houghton Lake Improvement Board to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Improvement Board and comply with all state statutes governing the investment of public funds.

The Houghton Lake Improvement Board's Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Houghton Lake Improvement Board at the Improvement Board's organizational meeting after each regular election of officers.

2. Capital Assets

Currently the Improvement Board does not have a capitalization policy nor does it own any capital assets.

3. Use of Estimates

This presentation of financial statements in conformity with the modified accrual basis of accounting requires the Improvement Board to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Houghton Lake Improvement Board follows these procedures in establishing the budgetary data reflected in the accompanying financial statements:

1. Prior to April 1, the Treasurer submits to the Improvement Board a proposed operating budget for the fiscal year.
2. After review, the Improvement Board formally adopts the budget.
3. The Board is charged with general supervision of the budget and monitors the budget.
4. During the year amendments are made to the budget when it is deemed necessary.
5. The budget is adopted on the modified accrual basis of accounting.
6. Budgeted amounts were originally adopted on April 24, 2007.
7. Budget appropriations lapse at the end of the fiscal year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Houghton Lake Improvement Board because it is, at present, not considered necessary to assure effective budgetary control or facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Improvement Board's deposits and investments are on deposit with Northwestern Bank, Chase Bank and State Farm Insurance Bank.

Investment rate risk. The Improvement Board will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investments and limiting the average maturity in accordance with the Improvement Board's cash requirements.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

Foreign currency risk. The Improvement Board is not authorized to invest in investments, which have this type of risk.

Credit risk. The Improvement Board will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Improvement Board's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Improvement Board will do business in accordance with the Improvement Board's investment policy.

Concentration of credit risk. The Improvement Board will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Improvement Board's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2008, \$1,305,698 of the government's bank balance of \$1,405,698 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Improvement Board's investments are categorized to give an indication of the level of risk assumed by the Improvement Board at year end. Category 1 includes investments that are insured or registered, or securities held by the Improvement Board or the Improvement Board's agent in the Improvement Board's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Improvement Board's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Improvement Board's name. At year end, the Improvement Board's investments were uncategorized as to risk.

D. Long-Term Debt

At March 31, 2008, the Improvement Board was not obligated for any long-term debt.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

IV. OTHER INFORMATION

A. Joint Venture

The Houghton Lake Improvement Board is a joint venture formed by Resolution of the boards of Denton, Lake, Markey, and Roscommon Townships. The Townships have no equity interest in the Improvement Board. Audited financial statements for the Townships can be obtained by contacting the Township treasurer.

B. Risk Management

The Improvement Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions. The Improvement Board participates in a pool of municipalities within the State of Michigan under P.A.138 for self-insuring casualty, crime, general liability, and errors and omissions insurance. The Improvement Board pays annual premiums to the pool for the respective insurance coverage.

HOUGHTON LAKE IMPROVEMENT BOARD

HOUGHTON LAKE, MICHIGAN

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED MARCH 31, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Interest and Rents			
Interest Earnings	\$ 70,000	\$ 70,000	\$ 63,585
Other Revenue			
Special Assessments	285,000	147,500	136,026
Total Revenues	355,000	217,500	199,611
<u>EXPENDITURES</u>			
Recreation and Cultural			
Lake Improvement			
Supplies			
Office Supplies	1,160	2,160	2,628
Other Services and Charges			
Insurance	2,000	2,000	1,995
Professional and Contracted Services	65,700	65,700	66,400
Studies and Special Projects	213,550	341,775	321,757
Printing and Publishing	2,225	2,225	348
Conferences and Travel	3,000	3,000	1,069
Dues and Memberships	300	300	525
Miscellaneous	1,000	1,000	2,367
Total Expenditures	288,935	418,160	397,089
Excess (Deficiency) of Revenues			
Over Expenditures	66,065	(200,660)	(197,478)
<u>FUND BALANCE</u> - Beginning of the Year	1,591,936	1,591,936	1,615,029
<u>FUND BALANCE</u> - End of the Year	\$ 1,658,001	\$ 1,391,276	\$ 1,417,551

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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June 4, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors
Houghton Lake Improvement Board
Houghton Lake, Michigan

We have audited the financial statements of Houghton Lake Improvement Board for the year ended March 31, 2008, and have issued our report thereon dated June 4, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 27, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Houghton Lake Improvement Board are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 4, 2008.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of Houghton Lake Improvement Board for the year ended March 31, 2008, we noted the following list of items which we feel deserve comment:

Credit Card Policy

State law requires that the Board adopt an official policy governing use and control of a credit card. In regards to the Improvement Board's credit card, we recommend that as a method of strengthening internal control that the Board review each purchase and adopt such a policy.

Support for Cash Disbursements

In several instances, we noted a lack of supporting documentation for disbursements. In order to provide adequate disbursement documentation, a copy of the invoice or contract should be retained for each disbursement. In the case of credit card statements the original purchase receipt should also be retained.

Condition of Accounting Records and Accounting Controls

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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June 4, 2008

To the Board of Directors
Houghton Lake Improvement Board
Houghton Lake, Michigan

In planning and performing our audit of the financial statements of Houghton Lake Improvement Board, Houghton Lake, Michigan for the year ended March 31, 2008, in accordance with auditing standards generally excepted in the United States of America, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Improvement Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Improvement Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

The relatively small number of people involved in the accounting functions of the Improvement Board makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

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BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.